

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism	Application 06-11-010 (Filed November 22, 2006)
Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan	Application 07-03-019 (Filed March 19, 2007)

**COMMENTS OF THE CONSUMER FEDERATION OF CALIFORNIA  
ON THE SETTLEMENT AGREEMENT BETWEEN THE  
DIVISION OF RATEPAYER ADVOCATES AND GOLDEN STATE WATER COMPANY  
ON WRAM AND CONSERVATION RATE DESIGN ISSUES**

In previous Comments and Testimony, the Consumer Federation of California ("CFC") has urged the Commission to require California's water companies to implement rates which will provide their customers with bills reflecting the actual cost of

water they consume, particularly during times when the cost of water increases due to peaking demand. Sending accurate price signals is critical to any rate design intended to encourage conservation. The parties to the Settlement between Golden State Water Company (“Golden State” or “GSWC”) and the Division of Ratepayer Advocates (“DRA”) have taken a different approach, preferring to minimize the impact of tiered rates on residential customer bills and delaying implementation of conservation rates for non-residential customers to minimize increases to larger users’ bills. CFC asks the Commission to reject the proposed settlement because it will not encourage conservation and because:

- The settling parties have proposed charging different rates to residential and non-residential customers without first determining how GSWC’s cost of service should be allocated to each of these classes of customers.
- Service charges in Region III are not consistent with BMP 11, and the settling parties offer only a vague and unsupported reference to ‘cash flow’ and ‘ratepayer impact’ to explain that inconsistency.
- Rates are discriminatory. Region 1 residential and non-residential customers are charged the same price, but in Regions 2 & 3, non-residential customers are charged less than residential customers.
- The ‘differential’ between the first tier and second tier is based only on the parties’ unilateral judgment that conservation rates should be introduced slowly, and on undisclosed calculations and “adjustments” which, in at least one instance, produced a discriminatory result.
- Average winter usage data in low use months, used to establish a break point

between Tier 1 and Tier 2 rates, does not match the amount of water the average customer uses for indoor purposes, as claimed by the settling parties, and there is a discrepancy between the average winter usage figures used in the Settlement and calculated by Golden State in its original proposal.

- The decision to minimize the differential between Tier 1 and Tier 2 rate blocks (15percent) is based on the faulty assumption that measures needed to help the customer conserve water are too expensive. The EPA website lists many steps consumers may take to reduce consumption, at little or no expense.
- The decision to limit the increase in non-residential customers' volumetric rate to 10 percent is also based on a faulty assumption, *i.e.*, that non-residential customers' demand is fixed and cannot be reduced through conservation efforts. A well-respected study by the Pacific Institute, "Waste Not, Want Not: The Potential for Urban Water Conservation in California" demonstrates the fallacy. Non-residential customers can also greatly reduce consumption by using less water in kitchens, bathrooms and outdoors.
- Rates are no longer frozen in Apple Valley, and the Commission's freeze of rates in Wrightwood and Morongo Valley need not be interpreted to preclude a change in rate design, provided revenues are not increased. The implementation of conservation rates in Wrightwood might delay the capital investment which the parties say is necessary to address 'water supply constraints.'
- Settlement rates do not address the need to discourage customers from using water during peak periods.
- No WRAM is necessary in this case since the parties have intentionally minimized

the impact of settlement rates on customer consumption. If a WRAM is adopted, the reduced risk to Golden State must be reflected in its return on equity.

I. The Re-Classification of Customers Has Taken Place Without A cost Allocation Study, An Essential and Legally Required Step in Rate Design.

Golden State does not currently separate customers between residential and non-residential classes, but has only one class which it calls commercial. Golden State proposed, in its Amended Application, to create a residential and non-residential class for metered customers. The settling parties have agreed to Golden State's proposal and have separated customers into residential and non-residential classes in Regions II and III, although it is not clear whether this was done in the Wrightwood and Desert service areas. The Settlement says, only, that "two service areas in Region III [Wrightwood and Desert] were excluded from conservation rate design ... as discussed in Section C." (Section IV.B.)

The method used to separate customers into classes is described in Section IV.E.2.d.iii of the Settlement:

- a. Residential customers are all metered customers with classification code "1" representing single residence with one dwelling unit.
- b. Non-Residential customers are all other metered customers with classification code greater than "1".

The parties have admitted, in response to a data request, that they have undertaken no analysis to determine whether costs have been fairly allocated between residential and non-residential customers:

- 12. Please provide copies of all analyses separating costs of service, including rate base, depreciation, operating costs and rate of return, between residential and non-residential customers and, if none are provided, please explain why no such analysis was performed.

Response: No analyses separating costs of service, operating costs and rate of return between residential and non-residential residents were undertaken because **no such analyses were necessary** to develop the proposed Pilot Program. In our analyses, we calculated the amount of revenues that would be recovered from each of the proposed new rate groups (residential and non-residential) at the existing rates and assumed the same amount of revenue would be recovered under the proposed conservation rates.

(*emphasis added*). The Settlement ignores a basic tenet of ratemaking:

[A] water agency should ... identify the following four key components when developing a rate structure: the revenue requirement, the classification of system cost, the allocation to customer classes, and the design of the rate structure. Each water agency must prioritize these policy criteria and characteristics to determine the "correct" water rate structure for its specific community.

Sanjay Gaur, "*Policy Objectives In Designing Water Rates*," e-Journal AWWA, Volume 99, Issue 5 (May 2007). The Commission has stated that the allocation of costs among customer segments is "the first step in the rate design process." *Investigation Into Implementing A Rate Design For Unbundled Gas Utility Services*, D. 87-05-046, 1987 Cal. PUC LEXIS 760, \*4 (Cal. PUC 1987).

This Commission has traditionally recognized the principle that utility revenues should be allocated by assigning cost responsibility in relation to cost causation. Cost-based rates promote economic efficiency because customers pay for what they consume, and thus properly adjust their consumption to match what the product really costs (Ex. 153, p. 6). ... Cost-based allocation and rate design promotes efficient utility planning.

*Application of Southern California Edison*, Decision 02-02-052 at 58 (Feb. 22, 2002).

A cost allocation study is "necessary" in order to determine that the difference in rates charged residential and non-residential customers is "reasonable", as required by California law:

No public utility shall establish or maintain any unreasonable difference as to rates, charges, service facilities, or in any other respect, either as

between localities or as between classes of service.

Pub. Util. Code § 453(c). The Settlement cannot be found reasonable without evidence that costs are being fairly allocated between customer classes.

## II. Meter Charges

The Settlement provides for a reduction in the amount of revenue recovered through the residential service charge by 20 percent (Region II) and 21 percent (Region III, and (b). The reduction in the service charge of non-residential customers is five percent (Region II) and six percent (Region III). The reduction in meter charges in Region I varies by ratemaking area, from 10 percent to 37 percent.

The Settlement states that the parties “considered cash flow and ratepayer impact” to “evaluate how much the service charge could be reduced.” (Section IV.E.1.b.) The process by which “cash flow” and “ratepayer impact” were taken into account is not explained, nor is any criteria given to explain at what point further reductions to the service charge were deemed imprudent.

The Settlement rates in Region III are not “consistent with the definition of conservation pricing,” as prescribed by the California Urban Water Conservation Council’s “BMP 11” because more than 30 percent of residential revenues will continue to be collected through the meter charge:

<b>BPM 11 Threshold Test</b>	Residential	Non-Residential	Combined
<b>Region III</b>			
Service Charge % revenue	38.75%	32.12%	36.09%
Quantity Charge % revenue	61.25%	67.88%	63.91%
Total	100.00%	100.00%	100.00%

The Settlement offers no justification for this result, other than the vague reference to

consideration of “cash flow and ratepayer impact.”

CFC sent a data request asking the parties to explain the parameters used to define an acceptable reduction in service charge revenues. The data request and response are reproduced below:

Please state the parameters considered as boundaries for reduction of the service charge, e.g., the amount by which cash flow could be restricted, the extent of any impact on ratepayers, the size of the ratepayer population affected, etc.

Response: The following parameters were primarily considered in determining the reduction in the service charge:

1. Whether the reduction of the service charge meets the 30/70 percent threshold set forth in BMP 11.
2. Whether low-water users (at winter average) will see a decrease in their monthly bill while high-water users (at summer average) will see an increase in their monthly bill.
3. Whether the number of customers receiving a bill decrease as compared to the number of customers receiving a bill increase was reasonable.
4. Whether the amount of the increase in customers' bills as compared to the amount of the decrease in customers' bills was reasonable.
5. Whether the resulting cash flow remains sufficient to support a level of earnings necessary to meet existing debt obligations.

None of these parameters relate to the BMP 11 conservation criterion of a 30/70 split between fixed and volumetric charges, except for the first, and evidence shows this parameter was not satisfied. The cited parameters explain how the combined fixed-variable rates were determined, but not the service charge. Moreover, the cited parameters do not disclose what increases or decreases in customer bills were considered “reasonable” and what level of earnings was deemed “sufficient” to meet debt obligations. In response to a data request, the parties stated that there is no set amount of fixed costs in existing bond covenants to be recovered through service charges. No justification has been provided for the inconsistency between settlement rates and the BMP 11 standard.

### III. Tiered Rates

#### A. Region I

The Settlement proposes an “interim conservation rate design” for Bay Point, Simi Valley, Los Osos and Santa Maria, and no change in rates for the remaining three ratemaking areas in Region I (Ojai, Arden-Cordova and Clearlake). The “interim conservation rate design” consists of a reduced service charge and a single quantity rate, for both residential and non-residential customers. No showing has been made that it costs the same amount to serve a residential customer, as it does to serve a non-residential customer, yet both will be charged the same rate for water. If it does cost the same amount to serve both classes of customers, then there appears to be no justification for charging different rates for residential and non-residential customers in Regions II and III. Work papers supplied with the Settlement demonstrates, however, that residential rates are designed to produce 1.9933 cents/ccf (R-3) and 2.4 cents/ccf (R-2), while non-residential rates are designed to produce only 1.8095 cents/ccf (R-3) and 2.1661 (R-2).<sup>1</sup> This is unfair and unreasonable.

The “interim rate proposal” will remain in effect, pending resolution of the Region I general rate case. The Settlement provides:

Within 90 days of the resolution of the pending Region 1 GRC, GSWC shall file an application proposing revised conservation rates to replace the interim conservation rates for the Bay Point, Los Osos, Santa Maria and Simi Valley service areas in Region I, as proposed in this settlement.

a. The application shall propose conservation rates in a manner consistent with those proposed in this settlement.

b. With respect to its application, GSWC will evaluate if more fixed charges can be moved to the quantity charge consistent with conservation rates proposed in this settlement.

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<sup>1</sup> Settlement Attachment 1, Workpaper RIII, Rate Design (p. 3) and Workpaper RII, Rate Design (p. 13).



The parties offer no explanation in the Settlement, or in the Motion asking the Commission to approve the Settlement, for their decision to delay implementation of conservation rates in the designated areas of Region I, other than the fact that a rate case is pending. This fact did not deter Cal Water from implementing conservation rates. If there is a good reason for deferring conservation rates in Region I, it should be explained.

#### B. Regions II and III.

The Settlement proposes a two-tiered rate design for residential customers in Regions II and III, and a single volumetric rate for non-residential customers in these regions. The following chart<sup>2</sup> shows that the Settlement's lack of any tiered rate proposal for non-residential customers will leave the majority of GSWC sales in Region II, and more than a third of GSWC sales in Region III, unaffected by the conservation price signals that tiered rates provide.

	<b>Residential</b>		<b>Non-Res</b>		<b>Total</b>
Region II					
Adopted Sales ccf	11,679,653	40%	17,426,215	60%	29,105,868
Region III					
Adopted Sales ccf	17,406,943	58%	12,888,253	42%	30,295,196

#### 1. Residential Rate Design

The rate design proposed for Golden State's residential customers was developed using the same methodology used to design rates in settlements filed by Suburban Water Company, Park Water Company and California Water Service

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<sup>2</sup> Data on the chart was taken from Region 2, Worksheet 1 RII Rate Design; Region 3 Example, Worksheet 1 RIII Rate Design, pp. 1 & 13 of Attachment 1 of the Settlement.

Company, adjusted for data unique to Golden State. The method requires a winter average in a service area to be determined, and a discount to the current single quantity rate to be developed for the first tier (all usage up to the winter average), with an increase for usage in excess of the winter average. The ‘differential’ between the first tier and second tier is based only on the parties’ unilateral judgment that conservation rates should be introduced slowly, and on undisclosed calculations and “adjustments” deemed necessary to make revenues fall “within 1% of what a single quantity rate would result in...”<sup>3</sup> For Suburban, the differential was set at 8-14%, for Park Water at 10%, and for Cal Water at 6-8%, except for East L.A. where the differential was 20%.<sup>4</sup> There is no principled basis for the creation of a differential which, in at least one instance (East L.A.), has a discriminatory effect.

a. Tier 1 Break Point – Average use in low usage months

The Settlement states that the “two-tier increasing block rate structure ... is based on seasonal averages which are determined to be a proxy for indoor (low use months) water consumption.”<sup>5</sup> Tier 1 represents “metered usage from zero units to the average winter usage (low use months) which the Parties agree provides a proxy for indoor water use.”<sup>6</sup>

Average winter usage data in low use months does not, however, match the amount of water the average customer uses for indoor purposes. Mr. Herbert, the

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<sup>3</sup> Settlement at Section IV.E.2.e.v.

<sup>4</sup> Phase IB Ex 8, Wodtke Test. at 19:19.

<sup>5</sup> Settlement at Section IV.E.2.e.

<sup>6</sup> Settlement at Section E.2.e.i.

witness for San Jose Water Company and Park Water Company, has testified that 6 ccf of water per month will satisfy the basic needs of an average family.<sup>7</sup> CFC has suggested 10 to 11 ccf per month is needed. Average customer use figures used in the Settlement exceed those levels.

The Settlement Attachments show average winter usage in Region II is 12 ccf, and average winter usage in Region III is 16 ccf.<sup>8</sup> These figures differ somewhat from the average winter usage figures provided by Golden State Water Company in response to CFC's data request, 17.64 ccf in Region II and 18.9 ccf in Region III.<sup>9</sup> The parties did not provide a very clear explanation for using 12 ccf and 16 ccf sinter average usage figures in the Settlement, when asked in a data request:

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<sup>7</sup> Phase IB Ex. 8, Wodtke Ex. BB-2, Response to Question 10.

<sup>8</sup> Region 2, Worksheet 3 RII Bills by Consumption; Region 3 Example, Worksheet 1 RIII Rate Design & Worksheet 3, RIII Bills by Consumption.

<sup>9</sup> Phase IB Ex. 8, Wodtke Ex. AA-2, Q. 17 & referenced workpapers.

14. Please state which “low use months” were used to determine average winter usage and explain why those months were determined to be a proxy for indoor usage.

Response: Because GSWC bills its customers on a bi-monthly basis, there is a lag between the usage month and the billing month. As a result, billing data for March can actually reflect usage for the months of January and February. In its analysis, GSWC used billing data from November through February because those are traditionally the low usage months. However, because of the effect of the bi-monthly billing, it might be more appropriate to use billing data for December through March. On the table below, GSWC has recalculated the tier 1 quantities and corresponding tiered rates using billing data for December –March.

<b>Region II</b>	<b>Tier 1 cutoff</b>	<b>Tier 1 Rate</b>	<b>Tier 2 Rate</b>
Current (November)	12 ccf	\$ 2.304	\$ 2.650
Lowest (March)	11 ccf	\$ 2.280	\$ 2.622
Difference	-1 ccf	\$ (0.024)	\$ (0.028)
% Difference	-8.33%	-1.04%	-1.06%
<b>Region III</b>			
Current (November)	16 ccf	\$ 1.910	\$ 2.196
Lowest (March)	14 ccf	\$ 1.894	\$ 2.178
Difference	-2 ccf	\$ (0.016)	\$ (0.018)
% Difference	-12.50%	-0.84%	-0.82%

The parties may be suggesting that the 12 ccf and 16 ccf cut-off points for the first tier of usage is too high. CFC’s witness had criticized Golden State’s use of the November through February period to calculate winter usage in testimony filed October 19.

GSWC selected November, December, January, and February to measure average winter usage. A ten-year average usage chart provided by GSWC shows November is a high usage month (6,262,763) when compared to December (4,931,541), January (4,982,104), February (4,648,712). March usage, which was not included in GSWC’s calculation of average winter usage, is the lowest usage month (4,381,281).

It is presumed from this response that the November through February period was used to calculate winter average usage, but that does not explain the discrepancy between the average winter usage figures Golden State originally calculated and the average winter usage figures used to design settlement rates.

**b. Differential Between Tiers**

The Settlement proposes a 15 percent rate differential achieved by discounting

“the single quantity rate that would be needed to recover the target revenue;” the amount of the discount “varies by Region/service area and is in the range of 4% to 5%.<sup>10</sup> As a result, the parties say, “average and low-use customers (including low-income customers) see slight decreases or no changes to their bills. In addition, customers (including low-income customers) with low consumption see greater bill decreases due to the decreased service charge and a discounted Tier 1 rate.”<sup>11</sup> While rate reductions should be encouraged, it is not entirely clear how a rate reduction for average customers encourages conservation. The parties impliedly admit that very weak price signals will be sent to high usage customers, when they argue “bills will increase in summer months, as they currently do.”<sup>12</sup>

The parties were asked to “explain the basis for setting the differential between Tier 1 and Tier 2 at approximately 15 percent.” Their explanation seems to be based on an assumption that measures needed to help the customer conserve water are too expensive and, consequently, that bills should not increase very much:

In proposing a two tiered rate structure, the parties weighed the effect of the rate design on both conservation and a customer’s bill. Although it is important to provide a price signal to customers to conserve water, many conservation measures contemplate long-term investments. A 15 percent difference between the tiers provides an incentive for customers to reduce their consumption in the short term to the extent they are able and to consider long-term conservation investments. The 15 percent differential also takes into account that customers may not have the resources to immediately make long-term conservation investments. A differential

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<sup>10</sup> This information can be found in the Motion to approve the Settlement Agreement, at page 7, and not in the Agreement itself.

<sup>11</sup> *Id.*

<sup>12</sup> Motion to Approve Settlement at 8.

greater than 15 percent may provide an excessive burden on usage that customers are unable to control in the short term. The 15 percent differential maintains the balance of giving a strong enough message to conserve and yet not cause a dramatic increase in a higher user's bill.

In addition, GSWC believes that the implementation of an inverted rate structure will be a phased process that builds on lessons learned from customer response. Thus, GSWC anticipates it may have to proposed further refinements to its two tier rate structure proposal in subsequent proceedings.

See also, Settlement Agreement at IV.E.2., and Motion to Approve Settlement at IV.B. and IV.C.

The assumption is faulty. Many water conservation measures cost very little, or nothing at all. For example, the following suggestions for conservation appear on the EPA's web site:<sup>13</sup>

- 1 Detecting and repairing leaks.
  - 2 Waiting until the dishwasher is full before running it, and using efficiency settings on the dishwasher. Water can be saved if hand washing dishes by plugging the sink before running water and turning the faucets off when finished.
  - 3 "Even a silent toilet leak (that's one you normally can't hear) will waste from 30 to 500 gallons of water per day! The ones you can hear will waste much, much more. Such wastage can normally be attributed to a faulty water level adjustment or to a leaky flapper. You can lower the water level in the toilet tank to reduce overflow with a screwdriver. Replacing the flapper costs about \$3.
  - 4 A wide variety of water conserving showerheads are available for purchase with prices starting at \$2.
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- 1 Sweeping sidewalks and driveways instead of washing them down. A hose, which can use more than 10 gallons of water a minute, can be made more efficient by installing a cutoff handle, repairing leaks, and placing a hose washer between the hold bib and the hose
  - 2 Using a commercial car wash that recycles water.
  - 3 Using water from steam tables to wash down cooking areas.

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<sup>13</sup> <http://www.h2ouse.org/>

- 4 Washing only full loads of laundry and selecting the appropriate washing cycle provided on the washing machine.
- 5 Using a pool filter backwash for landscape irrigation, and using a pool cover to reduce evaporation when pool is not being used.

There are more expensive investments that a consumer can make, but not all are prohibitively expensive. For example, gravity-tank toilets cost between \$75 and \$200, and pressure tank toilets begin at around \$150.<sup>14</sup> Businesses can buy high efficiency equipment as appliances wear out. The cost of all conservation investments, whether short-term or long-term, must also be considered in light of bill savings that will result when efficient appliances are placed in use.

The Settlement rates will not alert customers to the growing need to conserve water. As noted in CFC's testimony filed in Phase IA, municipal utilities have designed rates to send a much stronger price signal to customers who use more than is necessary for basic indoor uses. The lowest differential used by a municipality with prices posted on the internet was 15 percent, and ranged upwards to 100 percent.<sup>15</sup>

## 2. Non-residential Rate design.

The Settlement does not contain much discussion of the proposed rate design for non-residential customers. One noteworthy change has been made to the proposal of Golden State in its amended application. Apartment buildings will be treated as non-residential customers under the proposed Settlement, as recommended by CFC.<sup>16</sup>

The Settlement does not include a bill impact analysis like those provided for residential customers (Worksheet 2, "Typical Bills"), so one must go outside the

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<sup>14</sup> <http://www.h2ouse.org/>

<sup>15</sup> Phase IA Ex. 19, Wodtke Testimony at 19.

<sup>16</sup> Phase IB Ex. 8, Wodtke Testimony at 4.

Settlement to determine the impact of Settlement rates on non-residential customers. It appears from the parties' response to a data request, the non-residential rates proposed in the settlement will not have much effect on non-residential customers' bills:

21. Please explain the basis for limiting the increase in the quantity rate for the two non-residential customer quantity rate groupings to 10 percent.

Response. When compared to residential customers, non-residential customers are much more limited in the ability to conserve. Non-residential customers are generally businesses that require a relatively fixed amount of water. When increasing the quantity rate, the parties took into consideration the bill impact on the larger users. An increase in the quantity rate in excess of 10 percent will result in thousands of dollars of increases on a larger user's bills. At this point, setting a quantity rate increase at 10 percent or less is sufficient to send an effective conservation message to non-residential customers.

The parties' decision to limit the non-residential quantity rate increase to 10 percent is also based on a faulty assumption, *i.e.*, that non-residential customers' use of water is fixed and cannot be reduced. According to the study, "Waste Not, Want Not," offered as an exhibit to Ms. Wodtke's Phase IA testimony:

[O]rganizations in the CII [Commercial & Industrial] sector can save very substantial amounts of water with existing technologies and modest changes. We estimate that in 2000, the commercial, institutional, and industrial sectors used around 2.5 MAF [million acre feet] and that nearly a million acre-feet of this water can be saved through existing cost-effective strategies and technologies. Much of this savings comes from improving efficiency in outdoor watering, bathroom, and kitchen use – thus, the same technologies that have proven so useful in the home can also cheaply save water in the CII sector. But changes in the way water is recycled and modifications to specific CII end-use processes also show considerable potential, despite the progress that has already been made to improve efficiency and reduce waste.<sup>17</sup>

The parties propose an "interim conservation rate design for non-residential customers in Regions II & III consisting of a reduced service charge and a uniform

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<sup>17</sup> Phase IA Exhibit 19, Wodtke Testimony Ex. H at 113.



quantity charge (a single quantity/volumetric rate) ...<sup>18</sup> The Settlement states that service charges will be reduced by approximately 5% to 10%, and the quantity rate will not be increased by more than 10 percent.<sup>19</sup> In fact, as shown on Worksheet 1 RIII Rate Design (p.3) and Worksheet 1 RII Rate Design (p. 15) of Attachment 1, the quantity rate has been decreased, along with the service charges in Region III show the new service charges and the quantity rate, which are displayed on the following table beside the old rates:<sup>20</sup>

	Sch. R3-1 Previous	R-3 Settlement	Sch. ME-1 Previous	R-2 Settlement
Quantity Rate For all water delivered, per ccf	1.76	1.8095	2.1202	2.1661
Service Charges				
5/8 x 3/4 -inch meter	14.75	13.87	16.85	16.01
3/4 inch meter	22.10	20.80	25.25	24.01
1 -inch meter	36.85	34.66	42.10	40.02
2 -inch meter	73.65	69.33	84.20	80.04
3 -inch meter	118.00	110.92	134.75	128.06
4 -inch meter	221.00	207.98	252.25	240.11
5 -inch meter	368.00	346.63	421.40	400.19
6 -inch meter	737.00	693.25	841.80	800.38
8 -inch meter	1,178.00	1,109.20	1,346.30	1,280.60
10 -inch meter	1,694.00	1,594.48	1,935.85	1,840.86
12 -inch meter		2,287.73		2,641.24
14 -inch meter		3,119.63		3,601.69

The majority of non-residential customers in Regions II and III are served by meters of 2" or smaller:

	<b>5/8 x 3/4</b>	<b>3/4"</b>	<b>1"</b>	<b>1 1/2"</b>	<b>2"</b>	<b>3"</b>	<b>4"</b>	<b>6"</b>	<b>8"</b>	<b>10"</b>	<b>Total</b>
R-3	2662	70	2428	747	2279	217	60	19	10	0	8492
R-2	3428	16	1972	769	1700	177	26	11	1	0	8100

The usage point at which non-residential customers will see an increase in their monthly

<sup>18</sup> Settlement at Section IV.F.2.

<sup>19</sup> *Id.*

<sup>20</sup> The previous rates can be found in Phase IB Ex. 8, Wodtke Testimony, Exhibit CC

bills is shown on the following table:

		R-2	R-3
	5/8 x 3/4-inch meter	20 ccf	18 ccf
	¾ inch meter	28 ccf	28 ccf
	1-inch meter	50 ccf	50 ccf
	1 ½-inch meter	100 ccf	90 ccf
	2-inch meter	200 ccf	200 ccf
	3-inch meter	300 ccf	300 ccf
	4-inch meter	9999 ccf	500 ccf
	6-inch meter	9999 ccf	9999 ccf

This information is not particularly useful in evaluating whether the proposed non-residential rates will encourage conservation. Data is needed showing the average consumption of non-residential customers. These figures were not provided in the Settlement, and are not easily found on the internet. One figure given for the average commercial use of a restaurant is 100-200 ccf/month.<sup>21</sup> An 27-story apartment building uses 494 ccf/month, indoors.<sup>22</sup> A one-story office building uses 145 ccf/month, indoors, and 500 ccf, outdoors.<sup>23</sup>

Another piece of data is also necessary to evaluate the effect of settlement rates, *i.e.*, the rate at which different types of non-residential customers would be billed. Data showing what meter sizes are installed on different types of commercial buildings is required to determine which rate would apply to a particular customer, and whether the proposed rates will encourage conservation at a particular site.

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<sup>21</sup> <http://www.mwra.state.ma.us/04water/html/bullet3.htm>

<sup>22</sup> <http://www.aiaopten.org/hpb/site.cfm?ProjectID=273>

It is presumed that it is this type of information which the settling parties state is “not available at this time.”<sup>24</sup> The parties do not comment on whether the data is likely to be gathered and if so, when. The parties imply that the consumption data, if gathered, will be used to ‘reclassify’ customers. There is no information in the settlement as to how this reclassification would be undertaken, or how it would promote the state’s conservation rates. In response to a data request, the parties stated they had not yet agreed on any re-classification method. Water rates for commercial customers should not be established through inaction.

CFC’s witness described in her Phase IA testimony the “budget-based” rate approach to setting rates for commercial customers, where base indices of water use are determined from actual historical water usage for each individual customer, and the monthly water bill is calculated by comparing actual usage with the base index.<sup>25</sup> CFC recommends the Commission order Golden State to immediately begin gathering average usage data for non-residential customers and sufficiently specific, identifying data so that effective conservation rates can be established for these customers. In addition to the size of meters used by individual businesses, data concerning the types of equipment installed and the efficiency level of existing equipment should be gathered. The number of units in apartment buildings should also be determined so that rates can be designed to encourage conservation by the building owners and tenants.

### 3. Wrightwood and Desert

The parties have elected not to implement conservation rates in Wrightwood and

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<sup>23</sup> <http://www.aiatopen.org/hpb/site.cfm?ProjectID=162>

<sup>24</sup> Settlement at Section IV.F.1.b.

<sup>25</sup> Phase IA Ex. 19, Testimony of Wodtke at 22.

Desert (Morongo Valley and Apple Valley) “because the Commission ordered in D.00-06-075 that the rates in this high-cost service area remain frozen until the rates in the other Region III service areas reach a similar level.” D.00-06-075 was issued in a case (A.98-09-040) in which Golden State (then called, Southern California Water Company) proposed a “single tariff pricing for Region III, a three-tiered rate structure, 60% recovery of fixed costs in the service charge (as opposed to 50% for all other Class A water companies), and other ratesetting changes.” While rates in Wrightwood and Morongo Valley were to remain frozen until 2015, rates in the Apple Valley system were to remain frozen only until 2006. Further, it is not clear that the implementation of conservation rates in Morongo Valley and Wrightwood would violate D.00-06-075, since the Commission was requiring the level of rates collected to be frozen, and not the design of rates. Conservation rates might very well be useful in Wrightwood, where the parties say “water supply constraints ... may necessitate a significant capital investment in the near future.” The parties have undertaken no effort to determine the effect of conservation rates on future investments in water supply, as shown by their response to a data request:

4. Please provide copies of all studies measuring the effect of conservation rates and other conservation measures on the date when Wrightwood will need to make a significant capital investment in water supply.

Response: A response to this request can not be provided as no such studies exist nor can they. The Settlement Agreement states that Wrightwood ‘has experienced water supply constraints that may necessitate a significant capital investment in the near future.’ The request asks for studies measuring the effect of conservation rates/measures on an undetermined date in the future.

#### IV. Seasonal Rates

The parties have not proposed seasonal rates, but instead argue in their motion that “the parameters for developing residential conservation rates incorporate the impact of the seasonality of water use by using seasonal averages to establish break points.” (Section IV.F.). As more fully discussed in testimony and briefs filed by CFC, increasing block rates do not address the peak demand situation. A customer’s use may be small, but if it occurs during peak periods, the customer is contributing to the higher costs the utility incurs at the time of peak demand and should be charged with that cost.

#### V. WRAM/MCBA

The combined Water Revenue Adjustment Mechanism/Modified Cost Balancing Account proposal in the Golden State settlement is the same as proposed by California Water Service Company and Park Water Company. CFC’s argued in Phase IA, and reiterates the argument here, that the WRAM/MCBA combination account fails to achieve its intended purpose of ensuring that the utility and ratepayers are proportionally affected by the impact of conservation, and instead unreasonably guarantees the utility recovery of revenues authorized in a rate case. The WRAM/MCBA also rewards customer classes which don’t conserve, with benefits achieved by classes which do conserve. See, CFC Initial Br. at 28 *et seq.*

A Water Rate Adjustment Mechanism (WRAM) is unnecessary for Golden State Water in this case. The parties have made a conscious effort to minimize the effect on usage, and revenues, of the proposed rates and it is unlikely Golden State will see any erosion in revenues caused by conservation. Adoption of a WRAM would remove any

incentive for Golden State to tighten its belt when circumstances develop calling for increased efficiency.

The WRAM also removes all business risk and necessarily affects the rate of return on equity to which Golden State would otherwise be entitled. “The return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. *Federal Power Com. v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (U.S. 1944). In order to determine what return on equity was necessary to adequately compensate Cal Water’s investors, one would have to find an enterprise with corresponding risks, *i.e.*, an enterprise which does not have to absorb costs associated with mis-pricing its service. It would be very difficult to find such an enterprise. The proxy usually recognized for the rate earned on an enterprise which is free of risk is the rate paid on a three-month U.S. Treasury bill.

The Commission should reject the WRAM proposal, as it did previously, and for the same reasons.

“[W]ater utilities are allowed an opportunity to earn a return reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.” And further, “Class A water companies in California are provided special rate relief for certain expenses that are beyond their control.” Also, “With these regulatory tools available to them, the 14 Class A water utilities have shown stable earning and healthy rates of return.”

(Morse Testimony at 16:25, quoting D.94-06-033).

## **CONCLUSION**

For all the reasons set forth herein, the Settlement Agreement between Golden State Water Company and the Division of Ratepayer Advocates should be rejected and

conservation rates set in the manner recommended in the testimony and exhibits of CFC's witness offered in the Phase IA hearing.

Dated: November 19, 2007

Respectfully submitted,

CONSUMER FEDERATION OF CALIFORNIA

By:                     //s//                    

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**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism	Application 06-11-010 (Filed November 22, 2006)
Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan	Application 07-03-019 (Filed March 19, 2007)

**CERTIFICATE OF SERVICE**

I hereby certify that on November 19, 2007, I served by e-mail all parties on the service lists for I.07-01-022, A.06-09-006 A.06-10-026, A.06-11-009, A.06-11-010, & A.07-03-019 for which an email address was known, true copies of the original of the following document which is attached hereto:

**COMMENTS OF THE CONSUMER FEDERATION OF CALIFORNIA  
ON THE SETTLEMENT AGREEMENT BETWEEN THE  
DIVISION OF RATEPAYER ADVOCATES AND GOLDEN STATE WATER COMPANY  
ON WRAM AND CONSERVATION RATE DESIGN ISSUES**

The names and e-mail addresses of parties served are shown on an attachment.



The aforementioned document was served on Michael Whitehead, San Gabriel Valley Water Company, PO BOX 6010, El Monte, CA 91734, and on Adrian Hanson, 1221 Forrestville Ave., San Jose, CA, 95510, by causing the Comments, enclosed in envelopes addressed to them and with postage prepaid, to be deposited in the U.S. Mail.

Dated: November 19, 2007

Respectfully submitted,

                    //s//                    

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